



THE SECRETARY OF THE TREASURY

WASHINGTON

April 20, 1983

Dear Mr. de la Garza:

At its March 17 meeting, the Senior Interdepartmental Group (SIG) on International Economic Policy gave careful consideration to the Department of Agriculture's \$50 million blended credit proposal to finance cotton to Korea -- \$10 million in CCC interest-free direct credit blended with \$40 million in CCC-guaranteed commercial credit.

The SIG decided that extension of subsidized three-year credits to Korea for cotton is an inappropriate use of the Blended Credit Program. The purpose of the program is to counter subsidized foreign competition and to promote exports of U.S. commodities that would not otherwise take place -- the so-called "additionality" criteria.

The U.S. Government has for years provided financial support for cotton exports to Korea. For FY 83, the Administration has authorized \$300 million in CCC loan guarantees on 2-1/2 year terms to finance U.S. cotton exports to Korea. This represents over 40 percent of Korea's total annual cotton imports.

The United States developed the Korean cotton market with the strong assistance of U.S. Government programs, first through the use of P.L. 480 and then through three-year CCC credits. As a result, we have consistently supplied over 90 percent of Korea's cotton imports on an annual basis.

This has also meant, however, that the U.S. Government has financed the development of the Korean textile industry. Given that the normal turnaround time from import of cotton to export of textiles is much less than three years, the U.S. Government has, in effect, been providing working capital loans to the Korean textile industry.

With its strong economy, Korea is a good credit risk and has ample access to private bank financing in the international capital markets. This fact, combined with the 90% market share achieved by U.S. cotton, strongly suggests that the Korean textile industry need no longer rely on U.S. Government subsidies from which it has benefitted in the past. We believe Korea should now graduate from three-year CCC credits to financing closer to market terms, as it previously graduated from PL 480 credits when concessionary financing was no longer necessary. Indeed, last year Korea agreed to a gradual year-by-year.

- 2 -

reduction in terms, so that U.S. Government financial support would be more consistent with Korea's ability to repay but adequate to assure a strong position for U.S. cotton exporters in the Korean market.

The SIG is concerned that in granting three-year subsidized working capital loans to the Korean textile industry, we will not only be jeopardizing the progress made in reducing Korea's reliance on U.S. Government credit, but we will be moving in the exact opposite direction by providing subsidized credit which is not necessary. The U.S. textile industry is not afforded comparable U.S. Government-supported working capital financing.

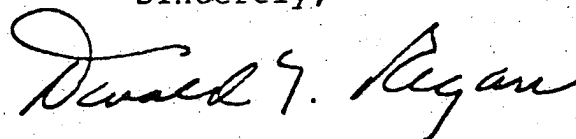
Moreover, the SIG noted that Korea pays cash for the majority of its cotton imports from non-U.S. suppliers. These include India, Sudan, Pakistan and Egypt, none of which subsidize their exports. Only Brazil, a minimal supplier, provides a price discount for its cotton exports, which Brazil still sells for cash.

We are acutely mindful of the current depressed conditions in our agriculture sector as surpluses increase. We are also aware that Korea is a major agricultural customer of the United States. The cotton credit was only one part of the \$130 million blended credit package for Korea proposed by the Department of Agriculture. Since similar problems did not exist for the \$80 million of surplus corn, wheat, and soybeans requested by Korea, there was broad support for blended credits for these transactions. In addition, \$55 million of blended credits for cotton to Thailand, Indonesia, and Portugal have been approved.

I appreciated knowing of your interest in this issue and hope that the information I have provided will clarify the position which the SIG took in this matter.

With best wishes.

Sincerely,



Donald T. Regan

The Honorable
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